

# FISCAL NOTE

**Bill #:** HB542

**Title:** Revising postretirement benefit increases under the MPORS

**Primary Sponsor:** R. Hamilton

**Status:** As Introduced

Sponsor signature

Date

David Ewer, Budget Director

Date

## Fiscal Summary

	<b><u>FY 2006 Difference</u></b>	<b><u>FY 2007 Difference</u></b>
<b>Expenditures:</b>		
General Fund	\$544,108	\$573,000
Other	\$3,486,247	\$743,238
<b>Revenue:</b>		
Other	\$544,108	\$573,000
<b>Net Impact on General Fund Balance:</b>	(\$544,108)	(\$573,000)

- |   |   |
|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact    | <input checked="" type="checkbox"/> Technical Concerns            |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached  | <input type="checkbox"/> Needs to be included in HB 2             |

## Fiscal Analysis

### ASSUMPTIONS:

1. Assume this is the only benefit provision being considered. If other provisions are enacted, the cost associated with this provision may be different.
2. It is assumed all current and future active members will be eligible for the amended provisions.
3. Average annual salaries in Municipal Police Officers' Retirement System (MPORS) are projected to increase by 5.31 percent per year, based on the experience of the last five years. FY 2004 covered payroll totaled \$24,531,018. At this rate, FY 2006 would total \$27,205,380 and FY 2007 would total \$28,649,986.
4. Under current law, the general fund contributes 29.37 percent of compensation to the MPORS. This bill increases the rate to 31.37 percent. The difference in general fund contributions, based on the assumed 5.31 percent increase in covered payroll, totals \$544,108 in FY 2006 and \$573,000 in FY 2007.
5. It is estimated that applying the one-time ad hoc purchasing power adjustment for previously excluded GABA retirees increases the actuarial liability by greater than \$26,900,000.
6. Currently there are 571 MPORS retirees – 60 are non-GABA, 511 have elected GABA.
7. The ad hoc 75 percent purchasing power increase was originally applicable only to non-GABA retirees. When this increase was originally applied, 128 retirees received the increase.

## Fiscal Note Request HB542, As Introduced

(continued)

8. It is assumed these 128 retirees have since elected GABA, therefore leaving 383 retirees who are potentially eligible for the ad hoc increase.
9. The potentially eligible benefit recipients will receive the 75 percent purchasing power retroactive to April 28, 2001 according to the changes in 19-9-1020.
10. When the original 75 percent purchasing power adjustment went into effect for non-GABA members, there were 128 (56 percent). The average increase was \$235. If 56 percent of the 383 GABA members receive an average increase of \$235, the retroactive cost would be \$2,764,657.
11. The increased benefit expense to the fund would be \$721,590 in FY 2006 and \$743,238 in FY 2007.
12. The three percent GABA would then be applied to all the additional benefits.

### FISCAL IMPACT

	FY 2006 <u>Difference</u>	FY 2007 <u>Difference</u>
<u>Expenditures:</u>		
Benefits	\$3,486,247	\$743,238
Transfers – Local Assistance	<u>\$544,108</u>	<u>\$573,000</u>
TOTAL	\$4,030,355	\$1,316,238

<u>Funding of Expenditures:</u>		
General Fund (01)	\$544,108	\$573,000
Other (MPORS Pension Trust Fund)	<u>\$3,486,247</u>	<u>\$743,238</u>
TOTAL	\$4,030,355	\$1,316,238

<u>Revenues:</u>		
Other (MPORS Pension Trust Fund)	\$544,108	\$573,000

<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
General Fund (01)	(\$544,108)	(\$573,000)
Other (MPORS Pension Trust Fund)	(\$2,942,139)	(\$170,238)

### LONG-RANGE IMPACTS:

The original intent of the statutes was to provide retired members with a benefit adjustment of either one-half the pay of the compensation paid to a newly confirmed police officer *or* a Guaranteed Annual Benefit Adjustment (GABA) based on an irrevocable election. Allowing both to occur concurrently significantly impacts the Municipal Police Officers' Retirement System.

The increase in purchasing power increases the monthly benefit for the future and is used when determining the GABA.

## **Fiscal Note Request HB542, As Introduced**

(continued)

### **TECHNICAL NOTES:**

1. This bill allows retired members who elected the GABA over the minimum benefit adjustment of one-half the compensation paid a newly confirmed police officer to receive both benefits. This creates an equal protection problem to the members that chose not to elect GABA.
2. An issue to consider is whether all retirees should receive the GABA. There are currently 60 non-GABA retirees. An important consideration is that there are 12 active members who did not elect the GABA; their contribution rates are lower than those elected the GABA.
3. Applying the one-time ad hoc purchasing power adjustment retroactively to members who elected GABA prior to the amount adjusted for GABA is difficult to determine. Each individual's data must be researched and recalculated to determine the retroactive 75 percent purchasing power based on salary as of July 1997. To this is then added annual GABA increases for each January to date, considering the original GABA increases received each year.
4. Applying this act retroactively to July 1, 1997 also creates a problem for those recipients who have passed away during this time period.
5. The system's current unfunded liability is expected to be amortized over 24.4 years. This bill would push the amortization period over the 30 years and create a system that is not actuarially sound.
6. Based on the most recent funded status of the Municipal Police Officers' Retirement System, and the expectation of emerging investment losses in the future, the Board's actuary recommends that all new legislative proposals include a provision for financing the entire cost of the proposal. The cost of this proposal would require a contribution increase of more than 6 percent to fund the benefit increases.
7. This bill raises the possibility of leapfrogging by the Highway Patrol Officers' Retirement System and the Firefighters' Unified Retirement System causing increased benefits for these retirement systems as well. This would increase the cost to employers and/or the state general fund.